

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: March 18, 2005

SUBJECT: **January 11, 2005 Audit Committee Meeting**

In Attendance:
Jon Strinden via conference call
Ron Leingang
Sparb Collins
Jamie Kinsella
Shelly Stuber

The meeting was called to order at 1:30 p.m.

I. August 11, 2004 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Goals and Objectives Project Update

The updated goals and objectives report on the activities that occurred during the last quarter in the internal audit division was included with the audit committee materials.

III. Administrative

- A. Quarterly Audit Finding Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. A copy of the report was included with the audit committee materials. Mr. Collins inquired if this included any recent recommendations. Ms. Kinsella explained that Eide Bailly's recommendations and any from internal audits for 2004 would be included on the next report. All findings will remain on the report until they reach 100% completion.
- B. Reporting to Board and Senior Management – This item is to address reporting the internal audit activities to the audit committee and to ensure it is meeting the Internal Auditors' International Standards as set forth. Internal audit has been providing a quarterly report with updates regarding internal audit's goals and objectives related to the

organization's strategic plan. This report is somewhat general in nature. Internal audit also provides a quarterly report summarizing previous findings and their status. Ms. Kinsella indicated she has learned that several other public pension funds provide copies of full audit reports to the audit committee, in addition to their internal audit plan summary/status report and quarterly findings status report. Some funds just provide a quarterly summary status report that reports specifically on what is in their audit plan and a quarterly findings status report. Ms. Kinsella conveyed in the past staff has not provided the audit committee copies of the audit reports unless it was an audit on a vendor. Attached were copies of audit reports for the audit committee's information as well as a summary status report example. Ms. Kinsella inquired if the audit committee would like to start receiving a full audit report and a summary status report, or would they prefer to receive only the summary status report. Mr. Strinden inquired if the other funds report one way more than the other. Ms. Kinsella indicated that it was about equal. The audit committee recommended that staff not provide a full audit report but that page 1 of the quarterly status report would be used to report the status of audits and projects.

- C. Position Reclassification Update – The Internal Audit III reclassification request was reviewed and approved by Human Resource Management. The Internal Audit III position is now classified as an Auditor IV. There is no change to the salary with this reclassification.
- D. Audit Committee Checklist Project – Included with the audit committee materials was a copy of the updated Audit Committee checklist that was sent to the audit committee for review. Most of the items not checked completed are included in the revised audit committee charter which was included with the agenda.
- E. Audit Committee Charter Revision Project – Included with the audit committee materials was the Audit Committee Charter Revision Project checklist along with a proposed revised Audit Committee Charter. Most of the items on the checklist are included in the new revised audit committee charter for the audit committee's approval. Mr. Collins will be providing a copy of the proposed audit committee charter with his comments on it and will review this at the February meeting.
- F. Conflict of Interest Policy Review – The audit committee requested a review of the conflict of interest policy at the last meeting and requested that it be on the next agenda for review. Ms. Kinsella indicated she began reviewing the current policy and requested information on this issue from other sources which she presented to the audit committee. Discussion followed. Ms. Kinsella will draft a memo regarding the conflict of interest issue to Ms. Kathy Allen. Staff will get back to the audit committee with information regarding PERS policy. Ms. Kinsella will review the ethics policy at a later date when APPFA has their final product.
- G. Special Projects – Included with the audit committee materials was an update of the special projects the internal audit division has been working on since June.
- H. Functions Risk Assessment Example – A copy of the questionnaire used to assess risk for each manager's areas of responsibility was included with the audit committee materials along with the worksheet use to analyze the results. This questionnaire was developed to assist management's evaluation of different functions in their area with minimal time required to complete. The results of the questionnaire were entered into a worksheet to determine the total score based on a weighted system. Those functions that scored higher than 2.5 were discussed with the managers to determine their concerns in those areas.

This information was used to consider whether the risk was high enough to merit including in the 2005 annual audit plan.

- I. Internal Audit Plan for 2005 – Included with the audit committee materials was a copy of the Internal Audit Plan for 2005 calendar year. The audit committee approved the plan. Mr. Strinden will sign and return to PERS for Ms. Kinsella to sign.

IV. Miscellaneous

- A. 2005 Audit Committee Meeting Dates and Time – The proposed dates for the 2005 audit committee meetings were included with the audit committee materials. The audit committee approved the proposed dates for the 2005 meetings.
- B. Eide Bailly Update – Eide Bailly LLP presented their audit report to the audit committee on December 15. The report will also be presented to the Board on January 20, 2005.
- C. CPE: IIA Designing and Evaluating Internal Controls and APPFA Conference – Included with the audit committee materials was an update on the continuing education the internal audit division staff attended this last quarter.
- D. Publications – Tone at the Top – The most recent copies of the publication were included with the audit committee materials.
- E. Public Pension Funds Chief Audit Executive Salary Survey – Included with the audit committee materials for information was a survey conducted by the MOSERS Internal Auditor regarding Chief Audit Executive's salaries.

The meeting adjourned at 2:15 p.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: September 15, 2005

SUBJECT: **February 16, 2005 Audit Committee Meeting**

In Attendance:
Jon Strinden via conference call
Ron Leingang
Jamie Kinsella
Sparb Collins
Sharon Schiermeister
Shelly Stuber

The meeting was called to order at 10:30 a.m.

I. January 12, 2005 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Internal Audit Quarterly Report

The internal audit quarterly report was changed to a different format. Included with the audit committee materials was the new format which listed all of the projects that are in active status. In addition, an updated Goals and Objectives Report that summarizes the status as of the end of the last quarter in the internal audit division was included with the audit committee materials.

III. Administrative

- A Quarterly Audit Finding Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2004 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials.

- B. Audit Committee Charter Revision Project – Mr. Collins presented his view on the proposed Audit Committee Charter. Discussion followed. A revised draft will be presented in August.
- C. Conflict of Interest Policy Review – Ms. Allen has been notified of the audit committee's request for management's review of staff's outside employment and management's determination whether there is a conflict of interest. Ms. Kinsella will update the audit committee on this at the August meeting.
- D. Internal Audit Division's Annual Report for 2004 – Included with the audit committee materials was a copy of the Internal Audit Division's Annual Report for the 2004 calendar year for review and approval. If there are no changes, the final copy will be signed by Mr. Strinden and Ms. Kinsella. By general consensus the audit committee approved the Annual Report for 2004.

IV. Miscellaneous

- A. May 2005 Audit Committee Meeting Date and Time – The next audit committee meeting will be held on Wednesday, May 18, 2005 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- B. Annual Meeting Between Internal Auditor and Audit Committee – The annual meeting between the internal auditor and audit committee was held after the regular audit committee meeting.

The meeting adjourned at 11:30 a.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: September 15, 2005

SUBJECT: **May 18, 2005 Audit Committee Meeting**

In Attendance:
Jon Strinden via conference call
Ron Leingang
Jamie Kinsella
Sharon Schiermeister

The meeting was called to order at 10:30 a.m.

I. February 16, 2005 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Internal Audit Quarterly Report

The internal audit quarterly report was included with the audit committee materials. As of April 25, 2005 there are still two 2004 audits waiting for managements' responses. Staff recommended canceling six fiscal year end 2005 audits from the 2005 annual audit plan. The audit committee approved staff's recommendation.

Mr. Leingang asked if there has been any progress on the Conflict of Interest issue discussed previously. Ms. Allen had requested some information from him. Ms. Kinsella informed him that it will be on the agenda for August 2005.

III. Administrative

A Quarterly Audit Finding Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2004 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials.

- B. Audit Committee Charter Revision Project – Included with the audit committee materials was the revised Audit Committee Charter that included the changes that were discussed at the last audit committee meeting. The audit committee will need to determine if this document is adequate and if so, approve the new charter. Staff recommended discussing appropriate wording for Section 8 of the Charter or approved the revised Audit Committee charter. By general consensus, the audit committee recommended presenting this to the full NDPERS Board for approval.
- C. Audit Committee Charter Matrix – During the last meeting there was some discussion about how to monitor the audit committee's activity/progress toward meeting the requirements of the Audit Committee Charter. Included with the audit committee materials was a draft of a matrix where each item on the charter is listed as an objective, and in the subsequent columns, Steps to Accomplish the Objective, Deliverable, Achieve (Frequency to Date), and Date Completed. Staff inquired if the audit committee felt the matrix was adequate for monitoring the audit committee's activity/progress in meeting their objectives. By general consensus the audit committee approved the charter matrix.
- D. Performance Evaluation – The annual evaluation for Ms. Kinsella was tabled until the next meeting.
- E. Internal Audit I Position – Ms. Kinsella indicated that Ms. Stuber left the Internal Audit Division effective April 8, 2005. The position was posted in the newspaper and with Job Service for two weeks. As a result of that posting, 7 applications were received. Of the seven, one did not need the application requirements, and four of the six remaining were selected for interviews. Two of the candidates were interviewed and are currently undergoing reference checks.

IV. Miscellaneous

- A. August 2005 Audit Committee Meeting Date and Time – The next audit committee meeting will be held on Wednesday, August 17, 2005 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- B. Eide Bailly's Audit Schedule – Eide Bailly LLP scheduled their preliminary audit work for the week of June 13, 2005, and will return August 29-September 2 to conduct their field work. The audit manager from last year has left Eide Bailly. The audit team will only have 1 person returning from last year. Ms. Schiermeister indicated that there has been no continuity with Eide Bailly which may be affecting their value added services because each year they have to familiarize themselves with PERS, instead of being able to expand their testing. Ms. Kinsella indicated that the Internal Audit division will not have the audit workpapers available this year as in the past due to Ms. Stuber leaving when they were going to start the audits for fiscal year 2005. Ms. Schiermeister indicated this may result in Eide Bailly requesting an increase in fees.
- C. Tone at the Top – A copy of the March 2005 issue of Tone at the Top was included in the audit committee materials for information only.

The meeting adjourned at 11:30 a.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: December 7, 2005

SUBJECT: **August 24, 2005 Audit Committee Meeting**

In Attendance:
Jon Strinden via conference call
Ron Leingang
Jamie Kinsella
Sparb Collins
Leon Heick

The meeting was called to order at 10:35 a.m.

I. May 18, 2005 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Internal Audit Quarterly Report

The internal audit quarterly report was included with the audit committee materials. In addition, an updated Goals and Objectives Report summarizing the status as of the end of the last quarter was included with the audit committee materials. Mr. Leingang inquired about the estimated completion dates for projects. Mr. Collins explained that this year there is a new report for Special and Periodic projects that provides an estimated target date for each project. A copy was provided after the meeting. Mr. Strinden inquired if there were any problems encountered this quarter. Ms. Kinsella conveyed there were not any.

III. Administrative

A Quarterly Audit Finding Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2004 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials. Ms. Kinsella indicated that the last 2

completed audit findings were not included on this report. Ms. Kinsella conveyed she will be revising the report and will send the revised copy this week.

- B. Conflict of Interest Policy Review – Ms. Allen was notified of the audit committee's request for management's review of staff's outside employment and management's determination whether there was a conflict of interest. Ms. Allen and Mr. Collins are working on the policy and will report back at the next meeting.
- C. Audit Committee Charter Revision – Ms. Kinsella indicated it is time to review the Internal Audit Charter. Included in the audit committee materials was the background of the charter and process. Also included with the audit committee materials were the proposed revisions and additions to the Internal Audit Charter. Discussion followed. Mr. Leingang suggested that staff determine if the audit committee is authorized to approve this or if the Board needs to approve it. Ms. Kinsella conveyed she will research this and report back to the audit committee in November.
- D. Performance Evaluation – The annual evaluation for Ms. Kinsella was completed in June 2005.
- E. Audit Committee Charter Matrix Review – At the last meeting staff provided the audit committee with an example of a matrix that could be used to evaluate the audit committee's performance in meeting their objectives. Ms. Kinsella indicated as she reviewed this matrix, she had additional questions on how it would be used. Discussion followed. The audit committee approved receiving the report on a calendar year basis and in a report format that would be provided to the Board.

IV. Miscellaneous

- A. November 2005 Audit Committee Meeting Date and Time – Discussion was held on the proposed meeting date in November. Ms. Kinsella will send a memo to everyone to check on potential dates available. A follow-up memo will be sent to audit committee members with the scheduled meeting date and time.
- B. Eide Bailly's Audit Update – Eide Bailly was in the office June 6-10 to conduct their preliminary audit work. They will be back in the office August 29 through September 9 for field work. They will present their audit report at the November audit committee meeting. Mr. Collins indicated that the auditors are all new again this year. Discussion followed. It was noted that the contract is in its third year and will be resubmitted for bid early spring 2006.
- C. Internal Auditor I – Ms. Kinsella introduced Mr. Leon Heick, new staff member to the Internal Audit Division. Mr. Heick began employment on June 1, 2005.
- C. Tone at the Top – A copy of the June 2005 issue of Tone at the Top was included in the audit committee materials for information only. Mr. Leingang inquired whether the audit committee should look into having a policy. Discussion followed. Staff will look into this and report back at the next meeting.

The meeting adjourned at 11:15 a.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: February 16, 2006

SUBJECT: November 30, 2005 Audit Committee Meeting

In Attendance:
Jon Strinden via conference call
Ron Leingang
Jamie Kinsella
Sparb Collins
Sharon Schiermeister
Leon Heick
Tony Hauck, Eide Bailly

The meeting was called to order at 10:30 a.m.

IV. Miscellaneous

- B. Eide Bailly's Audit Report – Tony Hauck, Audit Manager, Eide Bailly presented the audit report. The audit report will also be presented to the Board at the December board meeting.

I. August 24, 2005 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Internal Audit Quarterly Report

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. In addition, an updated Goals and Objectives Report summarizing the status as of the end of the last quarter was also included. This report is also submitted to the Executive Director after the end of the year to be included in the NDPERS Business Plan report to the Board early the next year. There were three audits in the flex comp area that were scheduled for fiscal year end June 30, 2005 that the internal audit division will be unable to complete due to staff shortages and training. The external auditors conducted an audit on flex comp for the fiscal year ending June 30, 2005. Staff requested audit committee approval to cancel the three flex comp audits so staff can focus on other audits/projects. By general consensus, the audit committee approved staff's request.

- B. Quarterly Audit Finding Status Report - As stated in the Audit Policy #103, the Internal

Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials.

- C. Annual Internal Audit Plan – A copy of the Internal Audit Plan for the 2006 calendar year was included with the audit committee materials for review and approval. After discussion, since Mr. Collins was out of the office and could not provide input prior to writing the audit plan, Ms. Kinsella will meet with Mr. Collins to review the risk assessment and then determine if the audit plan adequately meets the needs of the agency. The plan will be presented again at the February meeting.

III. Administrative

- A. Conflict of Interest Policy Review – A policy that requires employees to notify management of employment they may have outside NDPERS has been developed and approved by the NDPERS Board in September.
- B. Audit Committee Charter Revision – At the last meeting a revised draft of the internal audit charter was reviewed. Following discussion at the last meeting, it was recommended to research and determine whether the audit committee had authority to approve the charter or if it should go to the Board for approval. Ms. Kinsella indicated it appears that the audit committee reviews the documents with management and the internal audit division. Ms. Kinsella pointed out nothing is said regarding approval of these documents. Ms. Kinsella conveyed the charter should go to the Board for their approval. A copy of the charter and memo will be included in the next Board meeting agenda.

IV. Miscellaneous

- A. 2006 Audit Committee Meeting Dates and Times – Included with the audit committee materials were the 2006 proposed audit committee meeting dates and times. A date change was recommended for the August 2006 meeting. By general consensus, the audit committee approved the revised 2006 audit committee meeting dates and times.
- C. Association of Public Pension Fund Auditors (APPFA) Professional Development Conference – Ms. Kinsella provided an overview of the conference she attended in November.
- B. Publications – A copy of the September 2005 issue of Tone at the Top was included in the audit committee materials. In addition, a copy of a paper put out by The Institute of Internal Auditors titled: “Audit Committee Briefing...Internal Audit Standards: Why They Matter” was included with the audit committee materials. The items were informational only.

The meeting adjourned at 11:25 a.m.